

**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 30, 2004



**CRIT LUALLEN
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the Marshall County Sheriff's Settlement - 2003 Taxes as of April 30, 2004.

We engaged Berger & Company, CPA, and PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC evaluated the Marshall County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 30, 2004



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MARSHALL COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 30, 2004

Berger & Company, CPA, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Marshall County Sheriff as of April 30, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$13,494,664 for the districts for 2003 taxes, retaining commissions of \$522,200 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,963,234 to the districts for 2003 Taxes. Taxes of \$428 are due to the districts from the Sheriff and refunds of \$3,247 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

Deposits:

The FDIC insurance did not equal or exceed the amount on deposit, leaving \$370,686 of public funds uninsured and unsecured. The FDIC insurance did not equal or exceed the amount on deposit, leaving \$370,686 of public funds uninsured and unsecured. There was an agreement between the Sheriff and the depository institution, signed by both parties, that was (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee and (c) an official record of the depository institution. However, the bank did not pledge the securities to protect the deposits.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2003 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the Marshall County Sheriff's Settlement - 2003 Taxes as of April 30, 2004. This tax settlement is the responsibility of the Marshall County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Marshall County Sheriff's taxes charged, credited, and paid as of April 30, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Mike Miller, Marshall County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
January 21, 2005

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,220,060	\$ 3,968,736	\$ 3,826,014	\$ 1,575,417
Tangible Personal Property	229,682	483,234	536,388	1,499,459
Intangible Personal Property				141,632
Increases Through Exonerations	5,358	14,945	15,271	25,742
Franchise Corporation	147,116	400,974	355,880	
Penalties	12,174	40,561	37,546	17,429
Adjusted to Sheriff's Receipt	(235)	(426)		3
Gross Chargeable to Sheriff	<u>\$ 1,614,155</u>	<u>\$ 4,908,024</u>	<u>\$ 4,771,099</u>	<u>\$ 3,259,682</u>
<u>Credits</u>				
Exonerations	\$ 67,473	\$ 132,323	\$ 164,979	\$ 33,119
Discounts	19,341	60,329	58,663	50,443
Delinquents:				
Real Estate	39,823	125,662	124,880	51,421
Tangible Personal Property	2,523	6,369	3,946	2,768
Intangible Personal Property				10,937
Uncollected Franchise	16,845	44,355	42,097	
Total Credits	<u>\$ 146,005</u>	<u>\$ 369,038</u>	<u>\$ 394,565</u>	<u>\$ 148,688</u>
Taxes Collected	\$ 1,468,150	\$ 4,538,986	\$ 4,376,534	\$ 3,110,994
Less: Commissions *	62,684	169,456	157,555	132,505
Taxes Due	\$ 1,405,466	\$ 4,369,530	\$ 4,218,979	\$ 2,978,489
Taxes Paid	1,404,200	4,365,904	4,215,336	2,977,794
Refunds (Current and Prior Year)	<u>1,389</u>	<u>4,305</u>	<u>4,162</u>	<u>2,193</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>(123)</u>	<u>(679)</u>	<u>(519)</u>	<u>(1,498)</u>

* And ** See Next Page

The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT – 2003 TAXES
April 30, 2004
(Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 8,386,557
3.6% on	\$ 4,376,534
1% on	\$ 721,573

** Special Taxing Districts:

Library District	\$ (30)
Health District	(123)
Extension District	(28)
Soil Conservation District	(13)
Harvey-Brewers Fire District	60
Fairdealing-Olive Fire District	118
Possum Trot-Sharpe Fire District	(211)
East Marshall District	(214)
Refuse District	(151)
Hospital District	(54)
Aurora - Ross Fire District	(50)
Palma, Briensburg-Draffenville Fire District	(225)
Eno Fire District	(8)
Gilbertsville Fire District	<u>250</u>
Due Districts or (Refunds Due Sheriff)	<u><u>\$ (679)</u></u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above, but the bank did not pledge the securities. The FDIC insurance did not equal or exceed the amount on deposit, leaving \$370,686 of public funds uninsured and unsecured as of December 19, 2003.

MARSHALL COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 30, 2004
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 19, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>370,686</u>
Total	<u>\$ 470,686</u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2003 through April 30, 2004.

Note 4. Interest Income

The Marshall County Sheriff earned \$27,116 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of January 21, 2005, the Sheriff owed \$187 in interest to the school district and \$81 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Marshall County Sheriff collected \$87,160 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Marshall County Sheriff collected \$7,800 of advertising costs and \$1,560 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2004
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing escrow account totaling \$2,920. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys in this escrow account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110.

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COMMENTS AND RECOMMENDATIONS

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 30, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year

During our audit we found that the Sheriff did not prepare and present his 2003 tax settlement for approval until November 12, 2004. KRS 134.310(1) states, "the report of the state and local settlement shall be filed in the County Clerk's office and approved by the County Judge/Executive no later than September 1 of each year." We recommend the Sheriff prepare and present his tax settlements for approval by September 1 of each year as required by KRS 134.301(1).

Sheriff's Response:

The tax settlement couldn't be reported on time. We were forced to use software provided by the county that would not print a report.

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 19, 2003, \$370,686 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should have pledged or provided sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

INTERNAL CONTROL:

The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

There was no settlement completed for franchise taxes collected during the year. A settlement should have been performed for the period of May 1, 2003 through April 30, 2004 and included in the approved tax settlement submitted to the fiscal court. In addition, any tax bills delinquent at that time should be transferred to the County Clerk for collection. We recommend the Sheriff include franchise tax collections in his annual settlement and transfer any delinquent bills to the County Clerk.

Sheriff's Response:

None.

MARSHALL COUNTY
TERRY ANDERSON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 30, 2004
(Continued)

PRIOR YEAR:

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The above findings were not corrected.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To Honorable Mike Miller, Marshall County Judge/Executive
The Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marshall County Sheriff's Settlement - 2003 Taxes as of April 30, 2004, and have issued our report thereon dated January 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marshall County Sheriff's Settlement - 2003 Taxes as of April 30, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Have His Tax Settlement Approved By Fiscal Court By September 1 Of Each Year
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

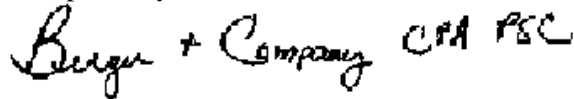
A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff Should Include Franchise Taxes In His Annual Settlement And Transfer Any Delinquent Bills To The County Clerk

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
January 21, 2005

